

**ANNUAL REPORT
TO
THE DENALI COMMISSION**

From

ALASKA GROWTH CAPITAL BIDCO, INC.

**For the year Ended
December 31, 2005**

A L A S K A
Growth  Capital

2005 COMPANY OVERVIEW

Alaska Growth Capital has two Financial Assistance Awards and this report addresses our performance against the performance measures of both of those agreements in total.

In 2005 Alaska Growth Capital (AGC) continued its mission to promote rural economic development. Total financing volume for 2005 was \$26,964,078.

AGC achieved the highest performance level - “Outstanding” - for four out of six performance measures and “Satisfactory” for two performance measures.

Financing volume

Although the total amount of financing disbursements to businesses in communities classified as “Distressed” by the Denali Commission was \$7,237,478, the total amount of financing to all rural communities was greater than this amount at \$18,158,512. Total financing volume for 2005 by market segment is summarized below:

	Total amount	Rural (off road system)	To Minority businesses	To "distressed" communities
Total Financings	\$26,964,078	\$18,158,512	\$12,545,080	\$7,237,478
	100%	67%	47%	27%

Importance of Federal Partners

AGC would not have been able to increase its loan volume in 2005 without its federal partners, the Denali Commission and the USDA Rural Development program. The \$5,324,000 in grants from the Denali Commission over five years has provided a major portion of the capital needed to support rural lending.

The ability of AGC to originate loans guaranteed by USDA Rural Development program and by the Small Business Administration (SBA) 7 (a) programs allowed for a high volume of loans relative to AGC’s total capital. AGC was able to sell off the federally-guaranteed portions of loans and thus maintain the liquidity needed to increase loan volume. In 2005 AGC received USDA guarantees for \$4,000,000 in loans, and all were sold during the year. SBA also guaranteed \$7,172,875 in loans for the year 2005, and all of the loans were sold during the year. The amount of loans sold represents the amount of private sector money that AGC was able to import from lower 48 companies into rural Alaska.

The quality of AGC’s relationships with the Denali Commission, SBA and with USDA continued to be a key factor in AGC’s success in 2005. In addition to providing capital and loan guarantees, these agencies provided numerous referrals and invaluable information and advice.

A schedule of all loans originated during 2005 is attached as Appendix 1 to this report.

Loan Quality

The historic loan loss rate from the inception of AGC in 1997 through 2005 was .20 percent. This is an exceptionally low loss rate for a portfolio of non-bankable loans. AGC attributes the low loss ratio to careful due diligence and to extensive technical assistance both before and after loans are booked.

Equity investments

AGC made no equity investments in 2005.

Staffing

Our staff currently includes the following:

- David Hoffman, CEO
- Richard Monroe, Chief Credit Officer
- John Delano, Senior Loan Officer
- Patrick Williams, Loan Officer (Alaska Native)
- Benjamin Sumulong, Loan Officer
- Karen Horner, Controller
- Jeff Batton, Vice President, Client Services
- Jered Stewart, Client Services Associate (Alaska Native)
- Diane Otto, Compliance Officer
- Wanda Pickett, Commercial Loan Processor (Alaska Native)
- Shelly Hutchison, Executive Assistant
- Rebecca McMullen, Receptionist (Alaska Native)
- Amber Bowman, Loan Processor
- Lynda Muise, Loan Servicing

Twenty-nine percent of the staff is Alaska Native.

Technical Assistance

Most members of AGC staff are involved in providing technical assistance to client businesses. In addition to our client services staff that consists of two full-time consulting professionals, all of our loan officers provide general business consulting to client businesses. This consulting assistance takes many forms, including Strategic Planning, Board Training, Business Planning, and Marketing/Business Development efforts. In addition, the client services staff has implemented a proactive technical assistance program that focuses on bringing assistance to residents of “distressed” locations. During 2005, this program delivered comprehensive training to entrepreneurs interested in developing e-commerce initiatives. AGC intends to continue this program during 2006 and expects to deliver additional and more in-depth technical assistance to some of these same entrepreneurs.

Outreach to “Distressed” Communities

The AGC outreach strategy is based primarily on building strong networks of personal contacts in distressed communities. Banks and various economic development organizations and agencies provide referrals, as do current [AGC](#) clients. In 2005, AGC relied on this mechanism to expand its loan volume and financing requests.

AGC also began to use the proactive technical assistance program mentioned above to spur awareness of its services throughout the state. Preliminary results show that this approach is effective and leverages the training effort into a mechanism for generating financing opportunities in AGC’s target market.

AGC staff continues to attend regional funding forums and economic development meetings as part of its strategy to reach out to distressed communities. This strategy not only offers good training for staff but also allows for the growth of the marketing network mentioned above.

PERFORMANCE AGAINST ACCOUNTABILITY MEASURES

The statistics below show performance against two sets of metrics. One set of metrics is from grant #0016 and one from #0095. Grant #0095 increased the required performance level for three of the four metrics in grant #0016. It also added two new metrics. Measures 1, 2 and 4 listed below track performance against the combined thresholds from the two grants. The last two measures relate to the two new metrics added by grant #0095.

Measure 1: *Total annual financing disbursements to businesses in communities defined as "distressed" by the Denali Commission. The "distressed" communities are listed in the Commission's issue paper of May 2001. (Agreement 0016 and Agreement 0095)*

Performance: **Outstanding - \$7,237,478 in disbursements.**
This exceeded the minimum "Outstanding" benchmark by \$5,171,478.

Measure 2: *Total annual financing disbursements to Alaskan - owned businesses in communities defined as "distressed" by the Denali Commission. (Agreement 0016 and Agreement 0095)*

Performance: **Outstanding - \$7,237,478 in disbursements.**
This exceeded the minimum "Outstanding" benchmark by \$5,171,478.

Measure 3: *The total annual payroll at all AGC - financed companies in distressed communities. (Agreement 0016)*

Performance: **Outstanding - \$15,753,410 in payroll.**
This exceeded the minimum "Outstanding" benchmark by \$13,910,923.

Measure 4: *Number of technical assistance engagements provided to businesses that operate in "distressed" communities. A "technical assistance engagement" is defined as a minimum of 8 hours of assistance provided by Alaska Growth Capital. These engagements will cover a broad range of topics, as defined by the needs of the business. (Agreement 0016 and Agreement 0095)*

Performance: **Satisfactory - 49 technical assistance engagements.**
This exceeded the minimum "Satisfactory" benchmark by 6.

Agreement 95

Measure 3: *The increase in annual payroll at all companies in distressed communities having loans in the AGC portfolio.*
(Agreement 0095)

Performance: **Satisfactory - \$309,630 increase in payroll.**
This exceeded the minimum “Satisfactory” benchmark by \$146,932 and missed the “Outstanding” benchmark by \$37,459.

Agreement 95

Measure 4: *The total increase in annual revenues at all companies in distressed communities having loans in the AGC portfolio.*
(Agreement 0095)

Performance: **Outstanding - \$8,938,622 increase in revenues.**
This exceeded the minimum “Outstanding” benchmark by \$6,733,622.

Appendix 1
Detailed Information on Measures 1-2

FINANCING TO BUSINESSES IN DISTRESSED COMMUNITIES IN 2005

Company Name	Location	Disbursed amounts
AK Native Arts Foundation	Rural AK	\$37,077
Bald Mountain Air Service	Homer	1,850,000
Unalakleet Native Corporation	Unalakleet	2,150,000
Tchaika Air Service	Gakona	187,602
King Island Native Community	Nome	30,000
Lighthouse Oysters	Halibut Cove	150,000
Selawik IRA Fuel Project	Selawik	433,339
Cape Smythe Air Service	Various rural	400,000
Frontier Flying Service	Various rural	2,000,000
2005 TOTAL		\$7,237,478

Appendix 2
Detailed Information on Measure 3

Total Payroll at All Distressed Community Companies Financed Since 2001

Company Name	Location	Annual Payroll
2005		
AK Native Arts Foundation	Rural AK	\$326,226
Bald Mountain Air Service	Homer	171,354
Unalakleet Native Corporation	Unalakleet	450,071
Tchaika Air Service	Gakona	0
King Island Native Community	Nome	0
Lighthouse Oysters	Halibut Cove	0
Selawik IRA Fuel Project	Selawik	
Frontier Flying Service	Various rural	3,447,738
2004		
AK Native Arts Foundation	Rural AK	225,625
Arctic Transportation Services, Inc.	Nome	2,692,139
Azachorok, Inc.	Mt. Village	151,172
Bering Air, Inc.	Nome	9,089,376
Michels Business Ventures, LLC	Nome	0
Nima Corporation	Mekoryuk	
Tyonek Native Corporation	Tyonek	
Unalakleet Native Corporation	Unalakleet	329,985
2003		
Arctic Transportation Services, Inc.	Bethel	3,062,172
Cape Smythe Air Service	Nome	512,232
Kateel Trucking	Nome	1,300
Sweetsirs	Galena	17,589
Unalakleet Native Corporation	Unalakleet	299,543
2002		
Alaska Fisheries	Adak	723,531
Asa' Carsarmiut Tribal Corp.	Mt. Village	214,865
Country Store	Nome	161,761
Arctic Transportation Services, Inc.	Bethel	2,730,919
2001		
Ulmer Burgess	Homer	872,116
E2R	Bethel	
Subway of Bethel	Bethel	182,620
Bettles Lodge	Bettles	81,053

Appendix 3
Detailed Information on Measure 4

CONSULTING SERVICES

Alaska Growth Capital conducted technical assistance engagements for 27 minority clients. This consists of 7 Native owned organizations and 2 woman owned. The remainder of the engagements were clients within the target investment areas.

QUALIFYING TECHNICAL ASSISTANCE ENGAGEMENTS

Minority and Native
Jan. 1 – December 31, 2005

Non-Fee technical assistance – new in 2005

Client	Date ended	Minority
Polar Brew	February	Native
Bald Mountain Air Service	February, Nov.	Native
Selawik IRA	On-going	Native
Adak Fisheries		
Kuukipik Corp.	On-going	Native
Cape Smythe Air Service		
Nima Corp.	May, Nov.	
OIT	On-going	
Magone Marine	On-going	
West Construction	May	
Harbor Crown	May	
Tatitlek Corporation	September	Native
Sheldon Jackson College	On-going	
Professional Growth Systems	August	
Frontier Flying Service	On-going	
Country Store	December	
Alaska Marketplace	On-going	
Lighthouse Oysters	August	Minority
Watermark Consulting	December	
Alaska Native Arts Foundation	October	Native
Azachorok	October	Native
Denny Akeya	November	Native
Wilfred Anowlic	November	Native

Megs Testarmata		November	Native
Barb Nickles		November	Native
Kay Hansen		November	Native
Kimberly Carter		November	Native
John Bell		November	Native
Shirley Bell		November	Native
Lew Tobin		November	Native
Wallace Johnson		November	Native
Melanie Johnson		November	Native
Josie Bahnke		November	Native
Northwest Marine		November	
Bettles Lodge		November	
Arlo Hannigan		December	Native
Allison Kelliher		December	Native
Ruby E. Jones		December	Native
Peter Martin, Sr.		December	Native
Tony Wayionanna, Sr.		December	Native
Rita Olanna		December	Native
George Naungwook		December	Native
AHTNA		On-going	Native
Unalakleet Native Corporation		December	Native

"Running with the Wolves"



Selawik IRA Fuel Project

WE SPONSOR & SUPPORT

ACADEMIC EXCELLENCE & ATHLETIC SPORTSMANSHIP

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